

Message Text

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44

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EURE-00 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

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FM AMEMBASSY ROME

TO TREASURY DEPT WASHDC PRIORITY

SECSTATE WASHDC PRIORITY 7135

INFO AMEMBASSY BERN

AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 13274

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY: PRELIMINARY MONETARY MOVEMENTS DATA SHOW
OVERALL BALANCE OF PAYMENTS SURPLUS IN FIRST HALF OF
SEPTEMBER OF \$75 MILLION, REDUCING CUMULATIVE EIGHT AND ONE-HALF
MONTH DEFICIT TO \$6286 MILLION. PARTIAL AND PROVISIONAL BOP
DATA FOR JULY NOW SHOW THAT SURPRISING SURPLUS WAS MAINLY ATTRIBUT-
ABLE TO LARGE IMPROVEMENTS IN CAPITAL ACCOUNT. END SUMMARY.

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2. HEAD OF BANK OF ITALY FOREIGN EXCHANGE OPERATIONS TOLD TREASATT SEPTEMBER 26 THAT ITALY HAD OVERALL BALANCE OF PAYMENTS SURPLUS SEPTEMBER 1-15 OF ABOUT \$75 BILLION. NET OFFICIAL POSITION WORSENER BY ABOUT \$275 MILLION, WHILE COMMERCIAL BANKS REDUCED THEIR NET FOREIGN LIABILITIES BY ABOUT \$350 MILLION. IN OTHER WORDS, SUBSTANTIAL OFFICIAL INTERVENTION PREVIOUSLY REPORTED MAINLY REFLECTED REPAYMENT BY COMMERCIAL BANKS OF SHORT-TERM DEBT, WHILE TRANSACTIONS "ABOVE THE LINE" WERE IN NET SURPLUS BY \$75 MILLION. THIS SURPLUS REDUCES CUMULATIVE 1974 DEFICIT TO \$6286 MILLION THROUGH MID-SEPTEMBER.

3. PRELIMINARY AND PARTIAL BOP DATA FOR JULY NOW GIVE SOME CLUES TO CAUSES OF SURPRISING \$308 MILLION SURPLUS THAT MONTH. APART FROM ODEST DECLINE OF \$60 MILLION IN TRADE DEFICIT FROM JUNE TO JULY (CUSTOMS DATA WITH IMPORTS ROUGHLY CONVERTED TO FOB BASIS), THERE WERE SUBSTANTIAL SURPLUSES IN CAPITAL ACCOUNT. ESTIMATED FIGURE FOR COMMERCIAL CREDITS (I.E., DIFFERENCE BETWEEN TRADE DEFICIT ON CUSTOMS BASIS AND TRADE DEFICIT ON PAYMENTS BASIS) WAS POSITIVE \$518 MILLION. STATISTICS ALSO SHOW ADDITIONAL RECORDED CAPITAL ACCOUNT SURPLUS OF \$255 MILLION AND FURTHER POSITIVE ERRORS AND OMISSIONS ITEM OF \$293 MILLION. POSSIBLE REASONS FOR SUCH SHARP IMPROVEMENT IN CAPITAL ACCOUNT ARE: (1) TIGHT CREDIT CONDITIONS IN FACE OF FAIRLY GOOD DOMESTIC GROWTH RATE ENTICED REPATRIATION OF ITALIAN CAPITAL FROM ABROAD, (2) FOREIGN EXPORTERS ARE FINANCING LARGER PART OF ITALIAN IMPORTS, PARTLY TO COVER 50 PERCENT PRIOR IMPORT DEPOSIT, (3) RECONSTITUTION OF RUMOR GOVERNMENT, PASSAGE OF TAX PACKAGE AND RELATIVE STABILITY OF LIRA IN EXCHANGE MARKETS HAS SOMEWHAT IMPROVED CONFIDENCE, AND (4) RELATIVE RISE IN DOMESTIC INTEREST RATES HAS REDUCED OR REMOVED INTEREST RATE INCENTIVE FOR CAPITAL EXPORTS. WE HAVE NO WAY TO CONFIRM THAT ABOVE FACTORS WERE ALSO IMPORTANT IN AUGUST AND SEPTEMBER, BUT CONTINUED IMPROVEMENT IN OVERALL BALANCE SUGGESTS THAT THIS WAS TRUE.

4. ON SEPTEMBER 25, LIRA EXCHANGE RATE WAS 661.95 PER DOLLAR, THREE-MONTH FORWARD RATE WAS 675.45, AND CONFIDENTIAL

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WEIGHTED AVERAGE DEVALUATION OF LIRE, ACCORDING TO BOI INDEX, WAS 18.61 PERCENT. ON SAME DATE, THREE-MONTH EURO-LIRA INTEREST RATE WAS 19 1/2 PERCENT AND LIRA INTERBANK INTEREST RATES WERE 16.0625 PERCENT (48-HOUR RATE) AND 17.1875 PERCENT (THREE-MONTH RATE). BEAUDRY

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